

A PREVIEW OF THE US PRESIDENTIAL AND CONGRESSIONAL ELECTIONS

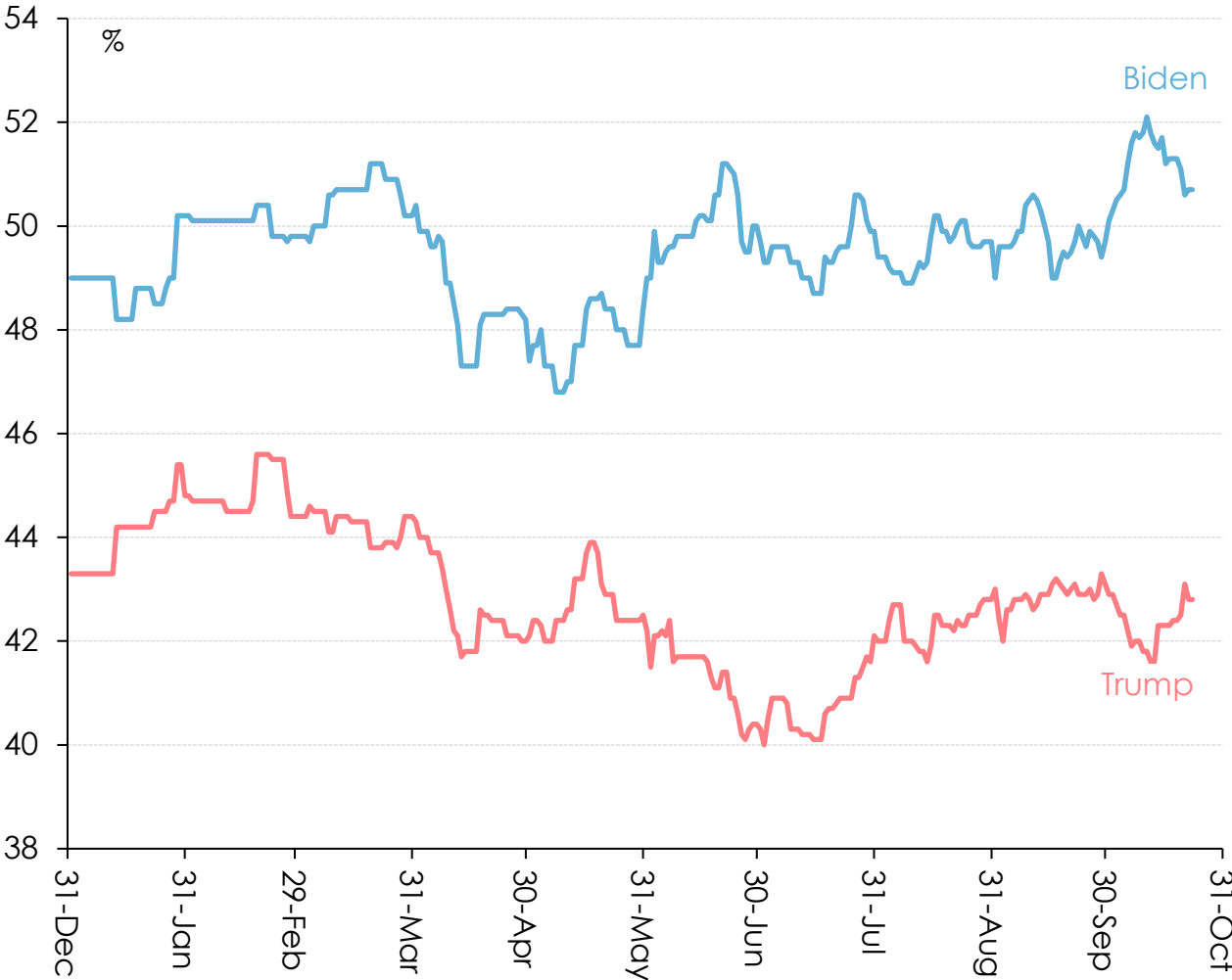
28TH OCTOBER 2020

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

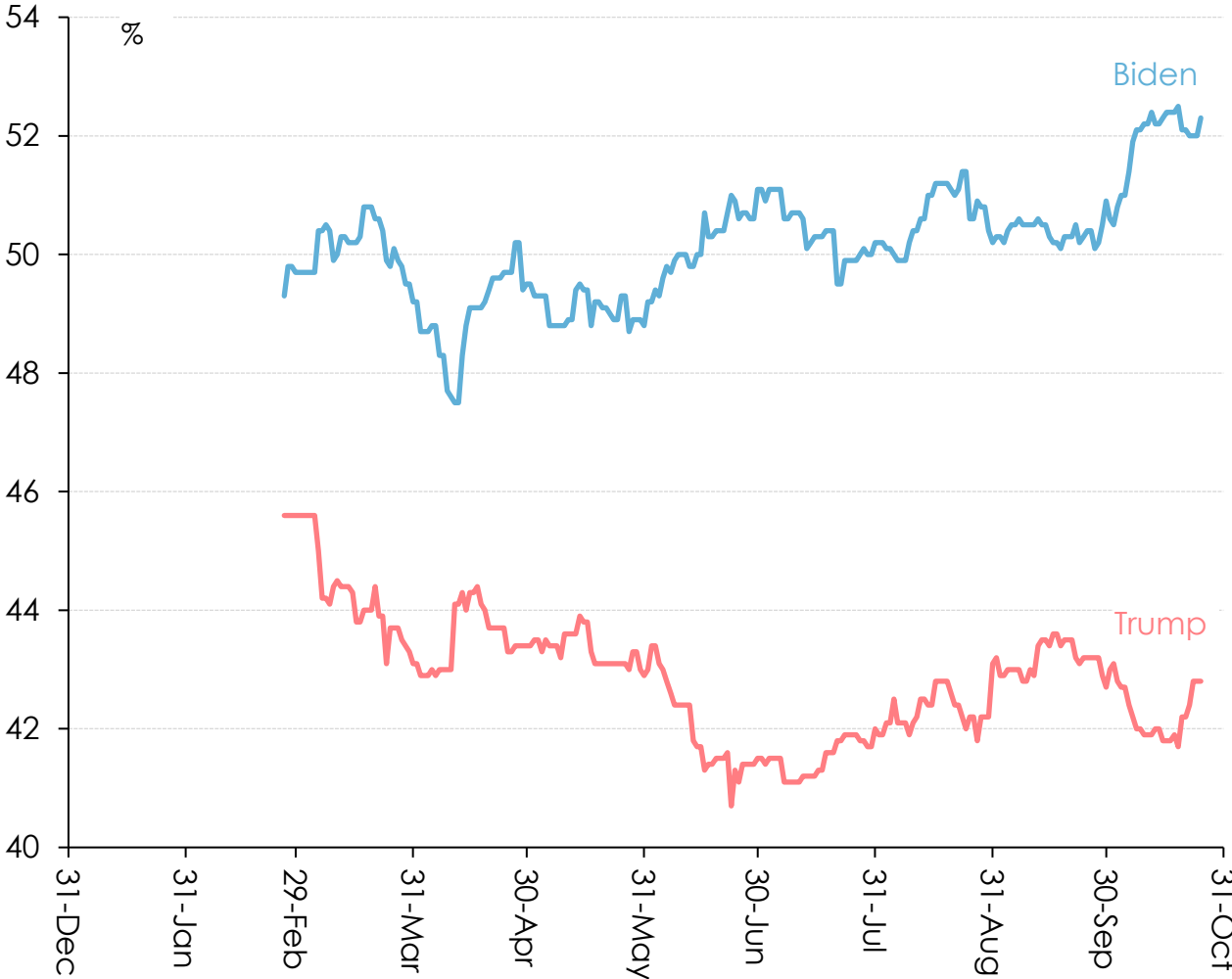
Both of the most respected opinion poll aggregators give Joe Biden a commanding lead over Donald Trump with less than a week to go

Winner of November US Presidential election – average of opinion polls

RealClearPolitics



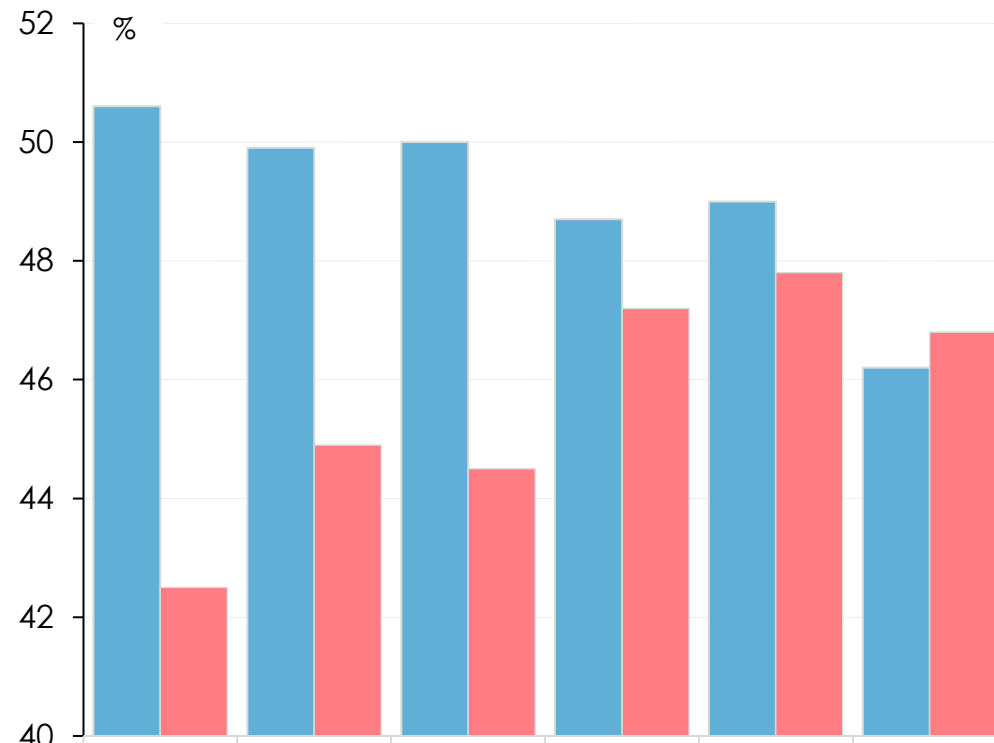
FiveThirtyEight



Note: The RCP opinion poll average is based on 9 different polls; the 538 opinion poll average is a more complicated weighted average of 452 different polls
Source: [RealClearPolitics](#); [FiveThirtyEight](#).

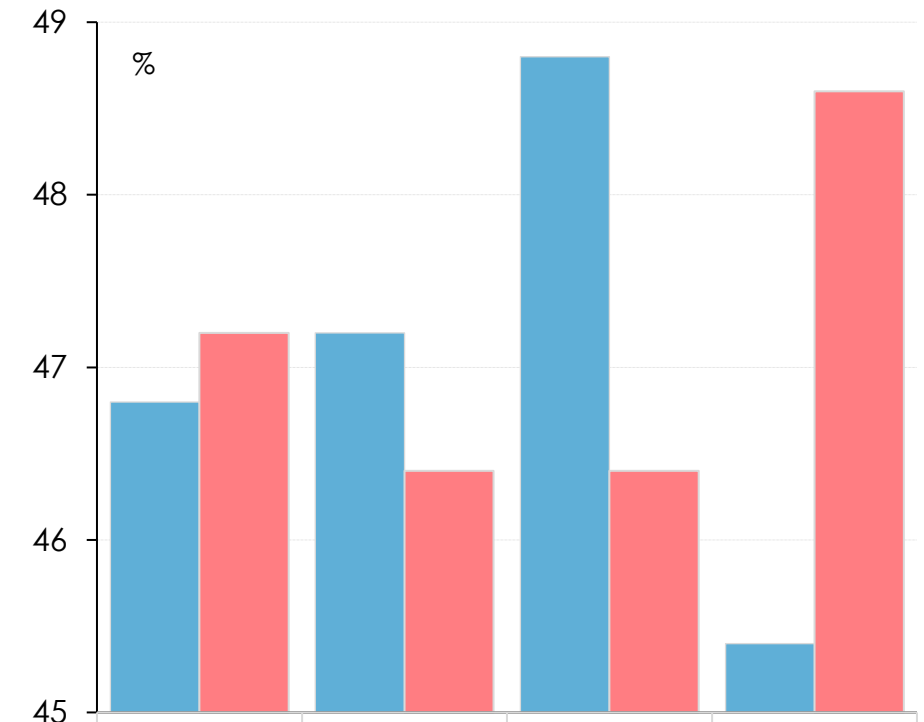
Biden has 228 Electoral College votes 'in the bag' and Trump has 181 – the outcome hinges on the other 129 Electoral College votes in ten states

Average of opinion polls – states which were critical to Trump's victory in 2016



■ Biden	50.6	49.9	50.0	48.7	49.0	46.2
■ Trump	42.5	44.9	44.5	47.2	47.8	46.8
Trump margin in 2016	0.3	0.7	0.7	1.2	3.6	8.1
Delegates	15	20	10	29	15	18

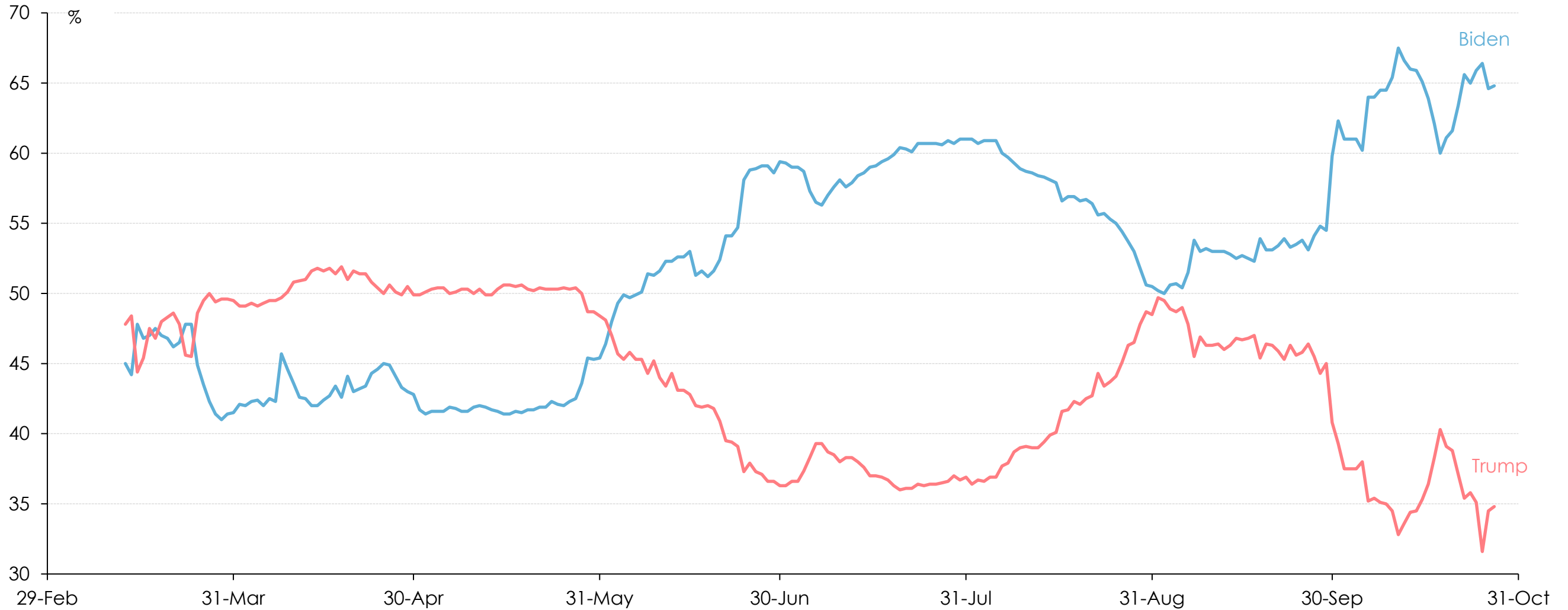
Average opinion polls – four other states which Trump won easily in 2016



■ Biden	46.8	47.2	48.8	45.4
■ Trump	47.2	46.4	46.4	48.6
Trump margin in 2016	5.1	9.4	3.5	9.0
Delegates	16	6	11	38

The betting markets are giving Biden an even wider margin

RealClearPolitics average of betting odds



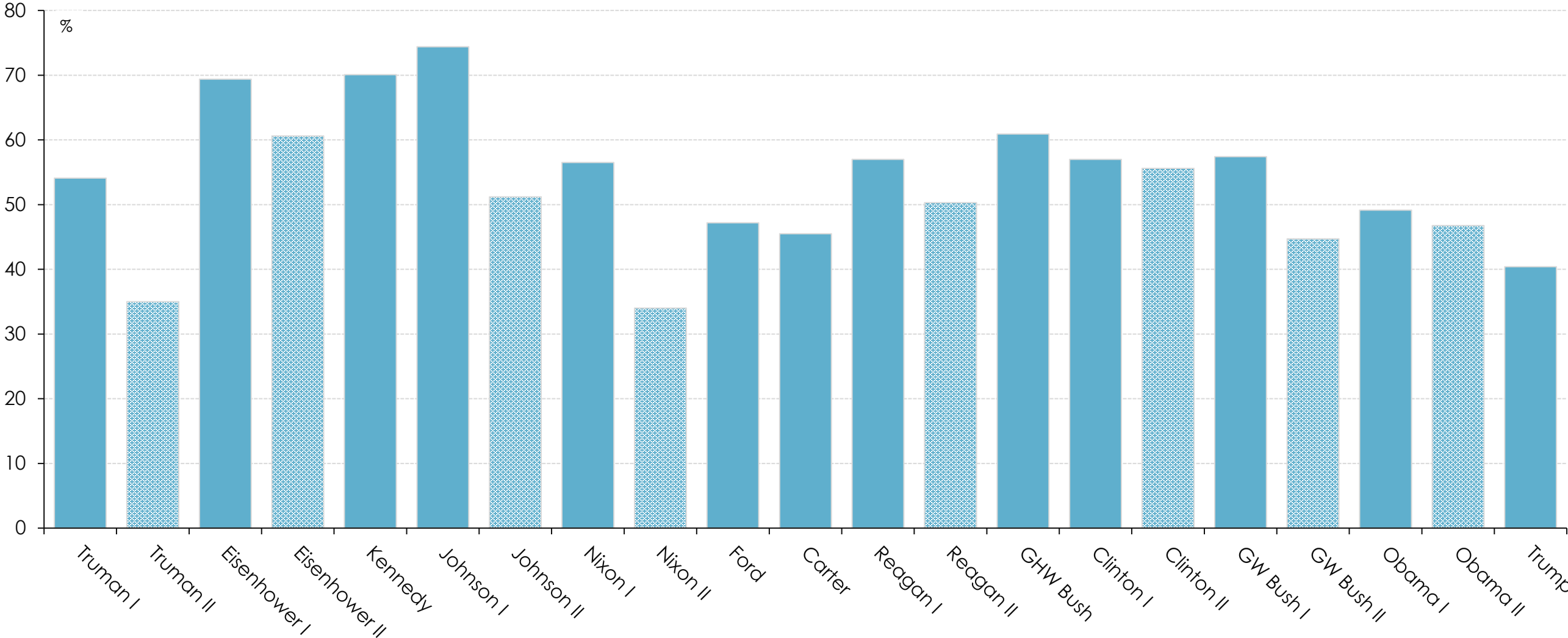
Note: the betting odds average is based on 6 different markets. Source: [RealClearPolitics](https://www.realclearpolitics.com).

Of course the polls and the betting markets were both wrong in 2016 – but here are five reasons why they probably won't be wrong again

- ❑ Donald Trump ran as an 'insurgent', or 'outsider', last time – this time he is running as an incumbent President with a record to defend
 - and over the entire course of his first term, Trump's approval ratings have been lower than those of any other first-term President since the end of World War II
- ❑ Although Hillary Clinton maintained a lead over Trump in the opinion polls throughout most of the 2016 campaign, it was never as wide as Biden's has been since he became the Democratic nominee, and she rarely polled over 50%
 - moreover, Biden's opinion poll lead hasn't narrowed substantially over the last few weeks of the campaign, as Clinton's did
- ❑ It was easier for Trump to win in the Electoral College despite losing the popular vote because the share of votes won by third party and independent candidates was unusually high in 2016, especially in some of the states that turned out to be critical
 - by contrast the vote for third party and independent candidates in 2020 appears to be much more like it was in 1972, 1976, 1984, 1988, 2004, 2008 and 2012 elections when the successful candidate won more than 50% of the popular vote
- ❑ An unusually large proportion of voters remained undecided until very late in the 2016 campaign – and most of those ended up voting for Trump, possibly after the FBI re-opened its investigation of Hillary Clinton's emails
 - whereas this time around the undecided vote is much smaller – voters appear to have made up their minds already to a much greater extent than four years ago
- ❑ An unusually large number of voters have voted already
 - and early voting (whether in person or by mail) appears to be favouring the Democrats
 - if the high number of early votes also presages a very high overall turnout (some pundits predict 65% or more which would be the highest since 1908) which would also likely favour Democrats

Donald Trump has had the lowest approval ratings of any first-term President seeking re-election since the end of World War II

Average approval ratings over Presidential terms

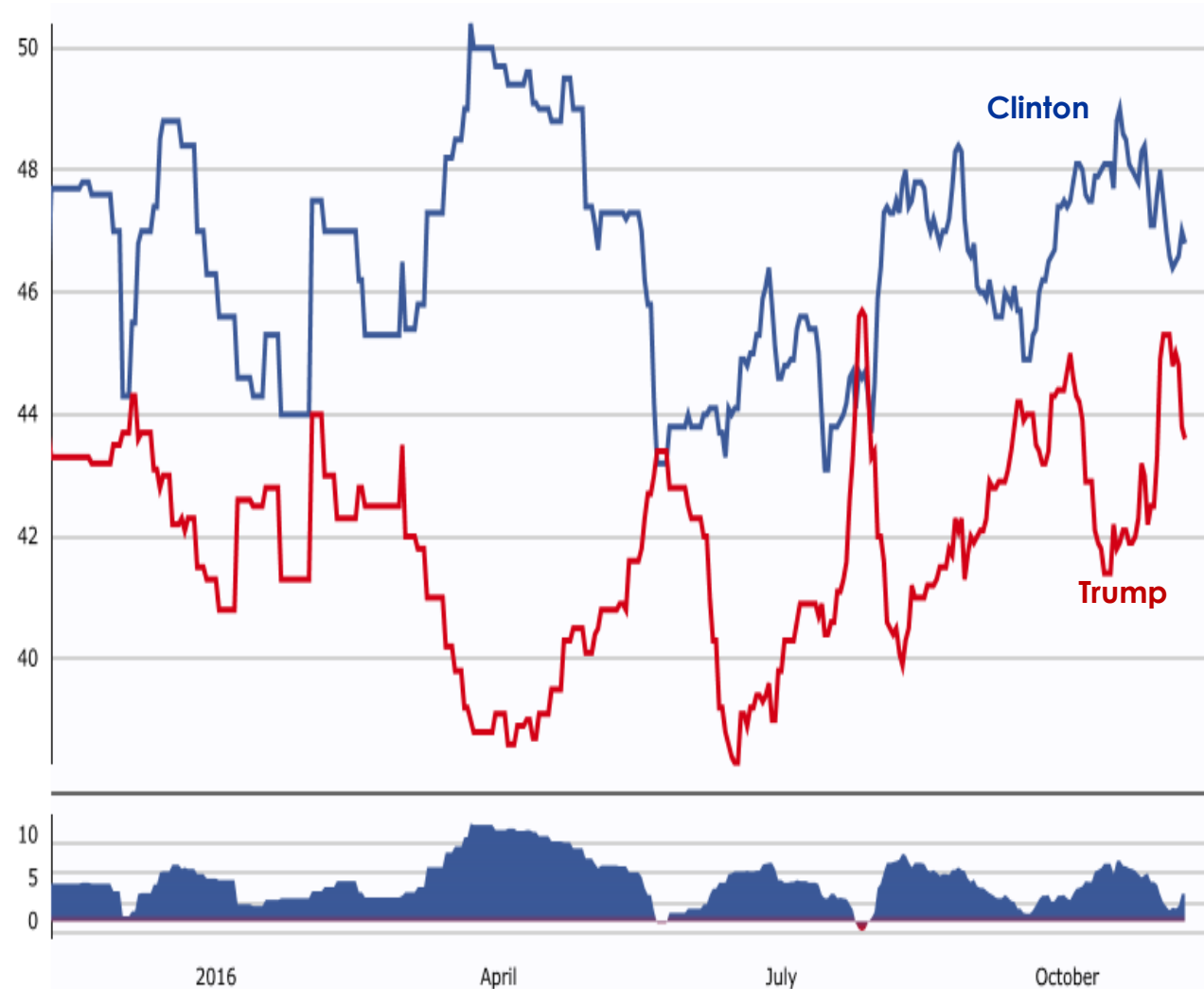


Note: Columns with solid fill are first-term Presidents seeking re-election. Source: University of California Santa Barbara, [The American Presidency Project](#).

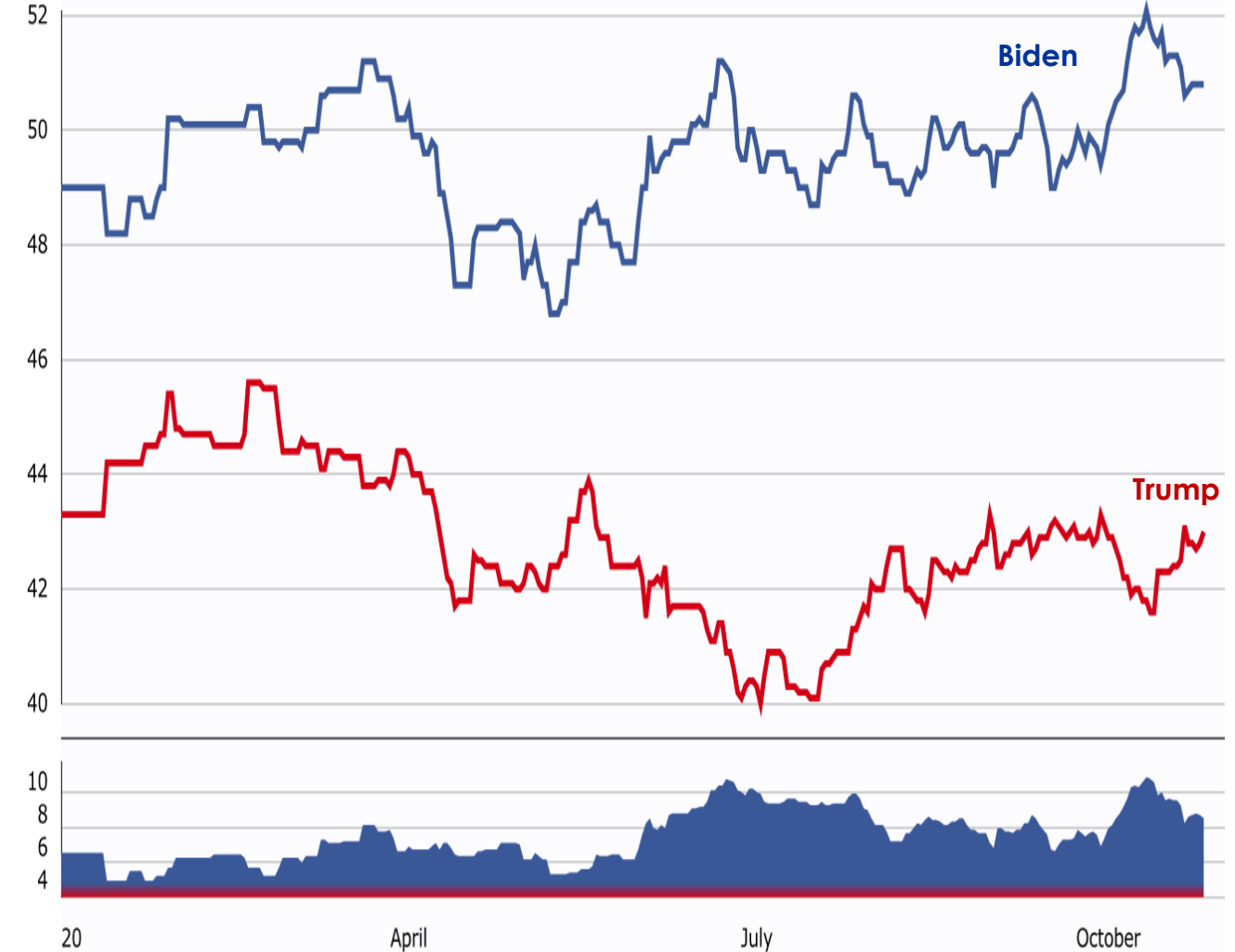
Hillary Clinton rarely exceeded 50% in the opinion polls – Biden quite often has, and in particular has exceeded 50% in the past few weeks

RealClearPolitics average of opinion polls

2016



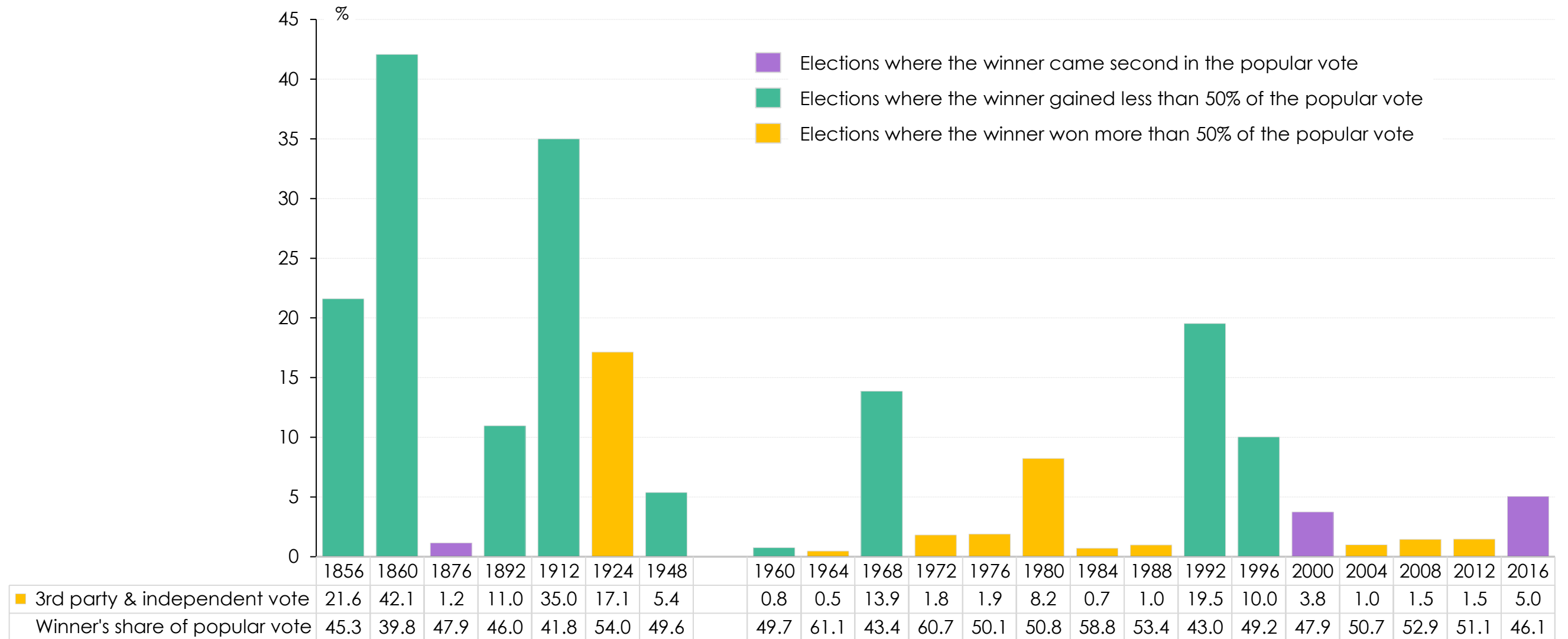
2020



Source: [RealClearPolitics](https://www.realclearpolitics.com).

A higher-than-usual 3rd-party & independent vote helped Trump win in 2016 without a majority of the popular vote: that isn't going to happen this time

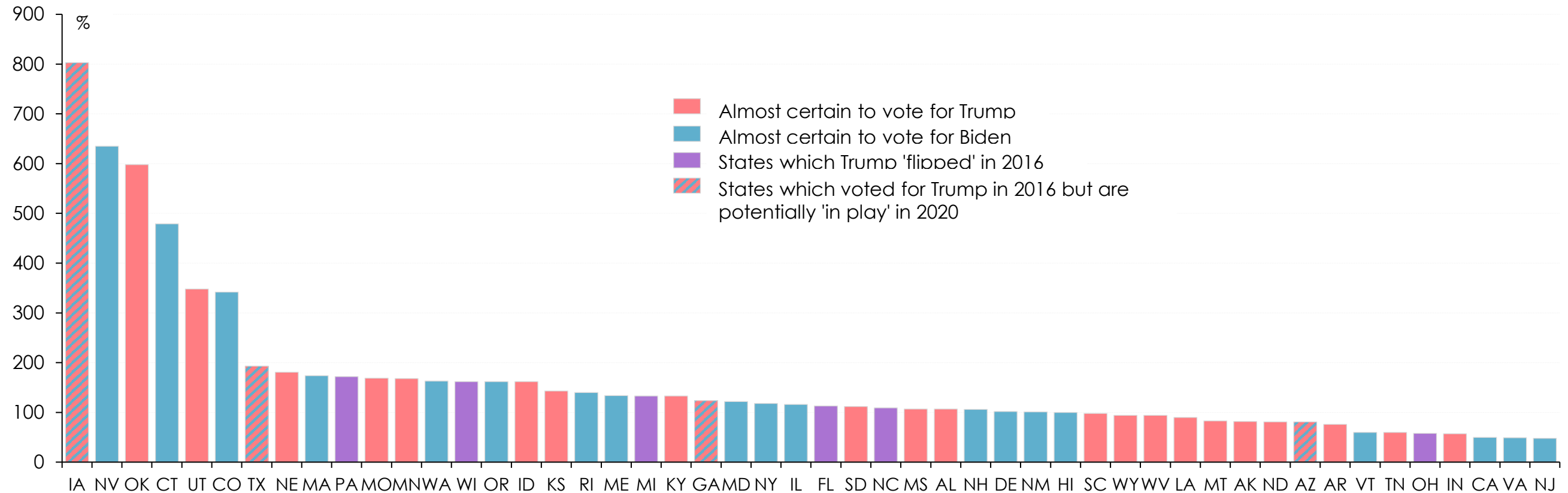
Third party and independents' vote as a pc of the total at US Presidential elections



Source: Dave Leip, [Atlas of US Presidential Elections](#); Corinna.

A higher proportion of voters have voted early in this year's election than at the same stage in 2016 – which probably favours Biden

Number of voters who have voted early (in person or by post) as of 26th October 2020, as a percentage of those who had voted early at the corresponding stage of the 2016 election



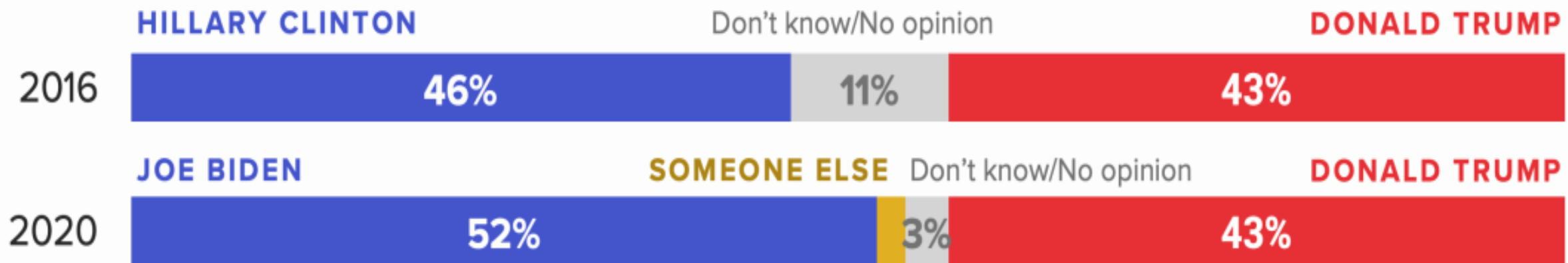
As of 26th October, almost 59 million Americans had already voted, more than the entire number of early votes cast during the 2016 campaign – and of those who have, in the 20 states which register voters' party affiliations, 48% have been registered Democrats and only 29% registered Republicans. Younger voters have also been more likely to have voted earlier than older voters – which probably favours Democrats.

The 'undecided' vote is much smaller than it was at this stage in 2016 – which also probably favours Biden

'Undecided' voters as of 27th October

Fewer Voters Are Undecided Ahead of 2020 Election

Share of likely voters who said they would vote for the following in 2016 and 2020:



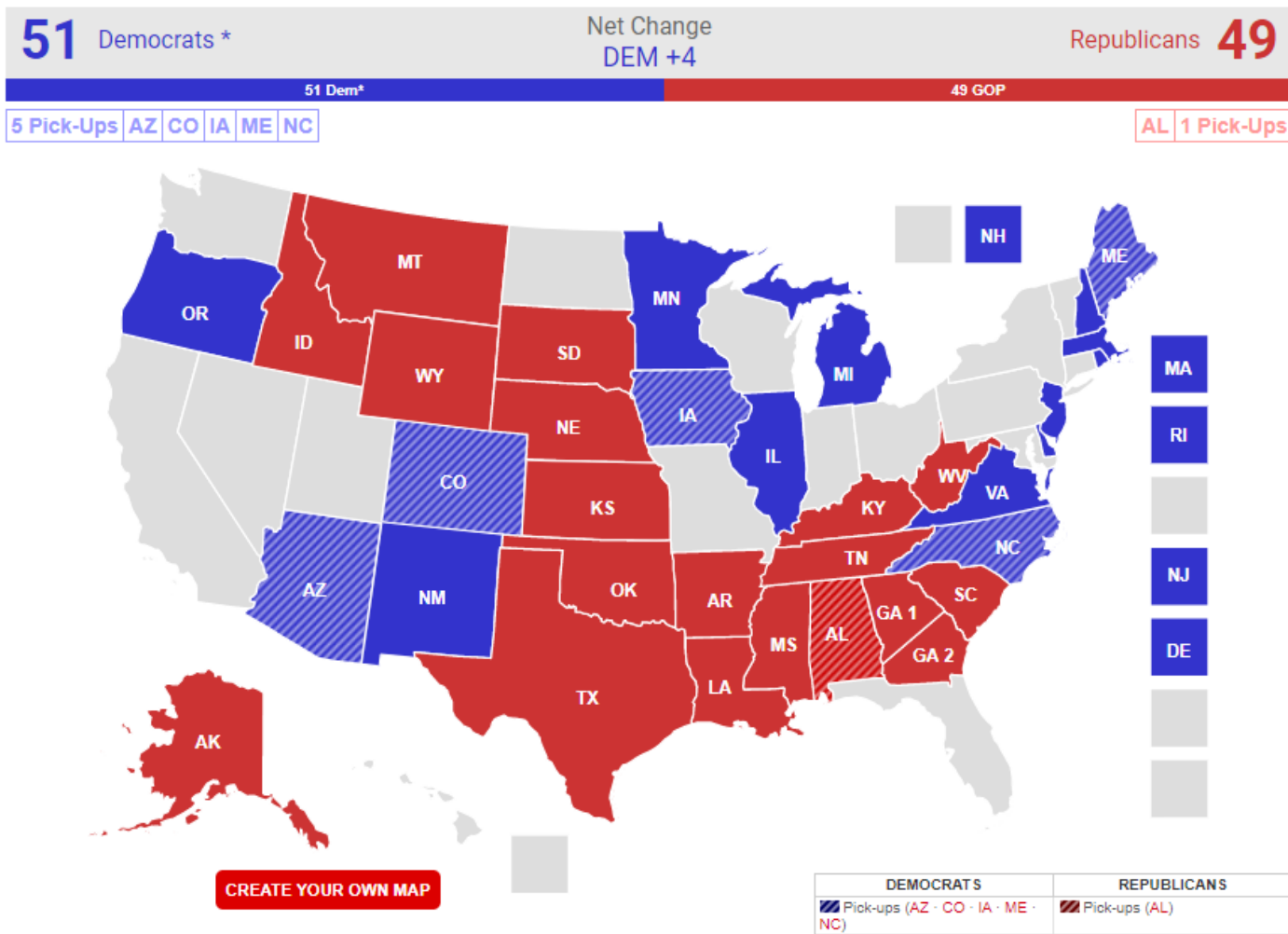
A much larger-than-usual number of voters waited until the last minute to decide how they voted in 2016 – and most of them ended up voting for Donald Trump, probably influenced by then-FBI Director James Comey's decision (announced on 28th October 2016) to re-open the investigation into Hillary Clinton's emails

What might happen if the result is very close?

- ❑ In ‘normal circumstances’, the Electoral College meets (in practice, state delegations meet in their respective state capitals) on ‘the first Monday after the second Wednesday in December’ (ie 14th December) to cast their ballots for president
 - states (and DC) typically award all of their electoral college votes (equal to their number of Senators and members of the House of Representatives) to the candidate who wins the largest number of votes in their state – except for Nebraska and Maine who award delegates according to the votes in each of their Congressional districts
- ❑ On 6th January the newly elected House and Senate meet jointly for a formal count of the Electoral College vote, and the winner is then sworn in at noon on ‘Inauguration Day’, 20th January
- ❑ Either party can initiate legal action intended to challenge the result of ballots in individual counties or states (as happened in Florida in 2000)
 - ultimately, as happened in 2000, the validity of votes (and hence the outcome in individual states, or the US as a whole) could be determined by the Supreme Court (where conservative judges now have a 6-3 majority)
- ❑ Individual state legislatures could over-ride voters’ choice as to the make-up of their Electoral College delegation
 - Article II of the US Constitution says each state shall appoint electors “in such Manner as the Legislature thereof may direct” – although no state has done other than endorse voters’ choice since the late 19th century
 - Legislatures in six of the most closely contested states (AZ, FL, MI, NC, PA & WI) are controlled by Republicans (and two, AZ & FL) also have Republican Governors
 - in the event that a state nominates rival delegations (which four states did in 1876), the decision as to which delegation is recognized by Congress rests with the President of the Senate (ie, Vice-President Mike Pence)
- ❑ If the result is clear, none of the above possibilities is likely to eventuate

The Senate contest is also crucial: with opinion polls suggesting that the Democrats will narrowly regain control of the Senate

Opinion poll predictions of Senate contest outcomes



*Senators Angus King (I-ME) and Bernie Sanders (I-VT) caucus with Democrats.
Current Senate: 47* Democrats | 53 Republicans

- ❑ US States each have two Senators, who serve six-year terms – so that 33 or 34 Senate seats are contested every two years (usually only one per state unless there’s a ‘special election’ which occurs after a casual vacancy has been filled by a State, as in Georgia this year)
- ❑ This year Republicans are defending 24 vacancies and Democrats 10 (these being seats last contested in 2014, when the Republicans gained 9 seats, the largest by either party since 1980, to regain control of the Senate)
- ❑ Opinion polls suggest that the Democrats will lose the Senate seat in Alabama which they picked up at a ‘special election’ in 2017 to replace Jeff Sessions (Trump’s first Attorney-General), but will hold their other 9 contested seats
- ❑ However polls also suggest the Democrats will ‘flip’ Republican-held seats in Colorado, Iowa, Arizona and (probably) Maine and North Carolina (where the Democrat candidate was involved in a ‘sexting’ scandal)
- ❑ That would give the Democrats control of the Senate, 51-49 (plus Kamala Harris’ casting vote as President of the Senate if needed)

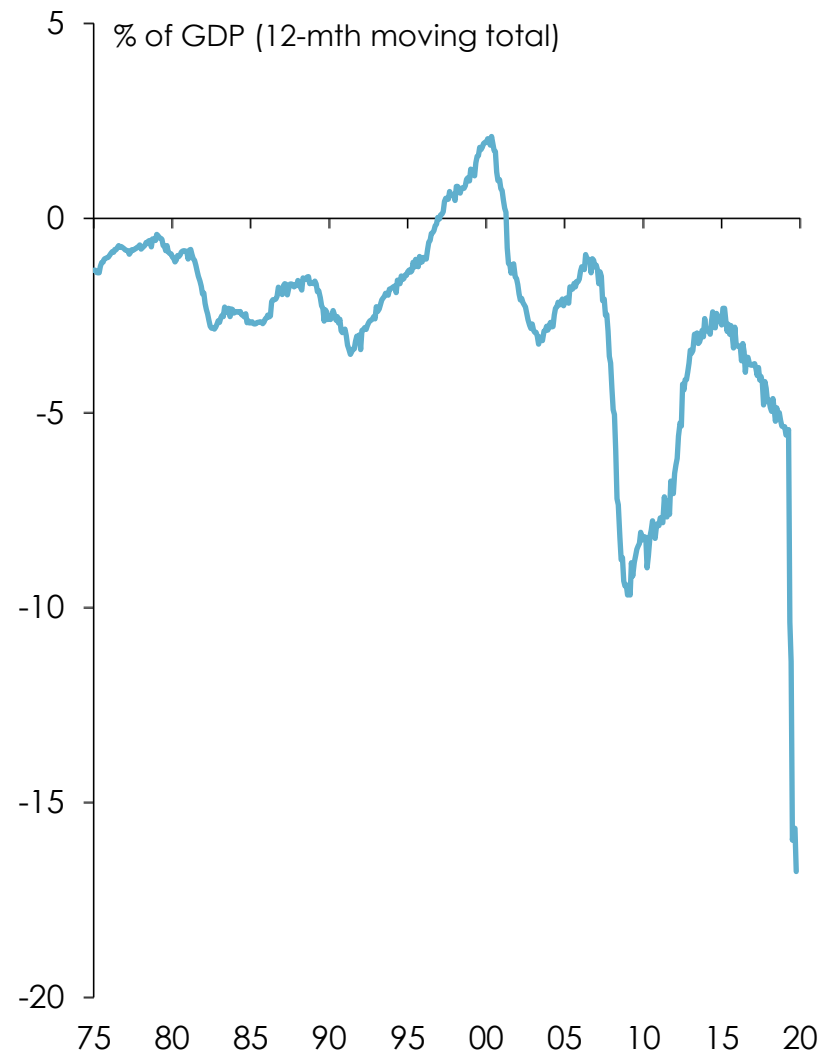
Source: [RealClearPolitics](https://www.realclearpolitics.com/).

As President, Joe Biden probably won't seek to 'pack' the Supreme Court, but the Democrats will probably create two new states

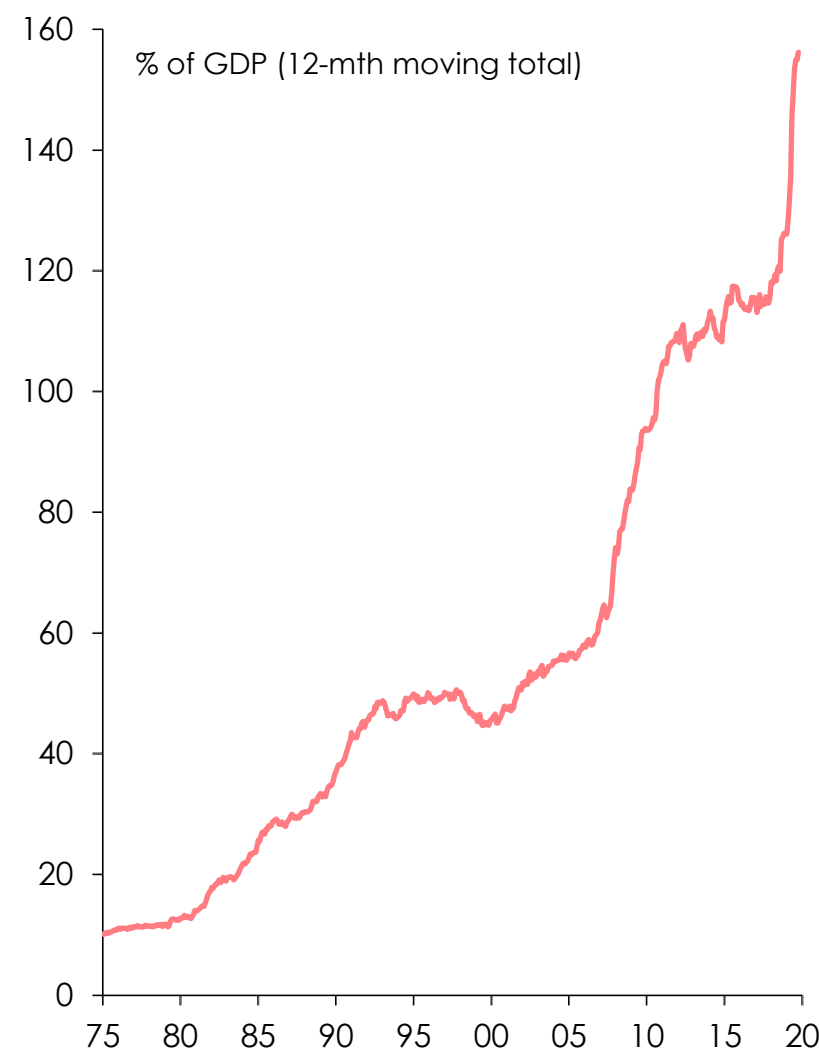
- ❑ **The Republican Senate majority this week pushed through the nomination of Amy Coney Barrett as a Supreme Court Justice, giving Trump his third appointment, and conservatives a 6-3 majority on the Court**
 - in defiance of unwritten (but long-standing) conventions, and in direct contradiction of the position they took in 2016 in refusing even to hold hearings on President Obama's nomination of Merrick Garland, arguing that such an important appointment should not be made in an election year
- ❑ **Some Democrats argue that, if elected, and given a Democrat majority in the Senate, Biden should swiftly appoint four new Supreme Court justices so as to restore a 'liberal' majority and prevent a conservative-dominated Court from thwarting the new Administration's policies, over-turning 'Obamacare' and Roe v Wade**
 - although the Supreme Court has comprised nine Justices since 1869, there is nothing in the US Constitution which prescribes how many there should be
 - but Biden has downplayed the likelihood of enlarging the Court, perhaps mindful of the backlash which Franklin D Roosevelt experienced when he proposed the same thing in 1936
 - ... and the precedent it might set for a future Republican administration
- ❑ **It's more likely that Democrats will seek to create new states out of the District of Columbia and Puerto Rico**
 - something which only requires a majority in each House of Congress, and the signature of the President
 - and something which would be harder for a future Republican majority to replicate (most other American territories eg Guam and American Samoa are much smaller, and in any case lean to the Democrats)
 - making new states by splitting existing ones requires the consent of the state(s) to be split
- ❑ **Creating DC and Puerto Rico as states would almost certainly give the Democrats four more safe Senate seats**
 - as well as more seats in the House of Representatives

If elected, President Biden will face a massive budget deficit – although reducing it should not be a near-term priority

US Federal budget deficit



US gross Federal debt



- ❑ The US budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to \$24.1trn (126% of GDP)
- ❑ Over the 12 months to September the deficit was US\$3.1trillion, equivalent to 16.8% of GDP (cf. the previous peak of 9.0% of GDP in the 12 months ended December 2009, and the highest since 1945 when the deficit reached 20.8% of GDP)
- ❑ The market value of gross federal debt rose \$237bn to \$29.2 trn (156% of GDP)
- ❑ Last month the non-partisan Congressional Budget Office forecast that the deficit would blow out to US\$3.3trn (16% of GDP) in FY 2020 (the largest since 1945) and remain above US\$1trn pa until at least 2030, with gross debt reaching \$38trn by 2030

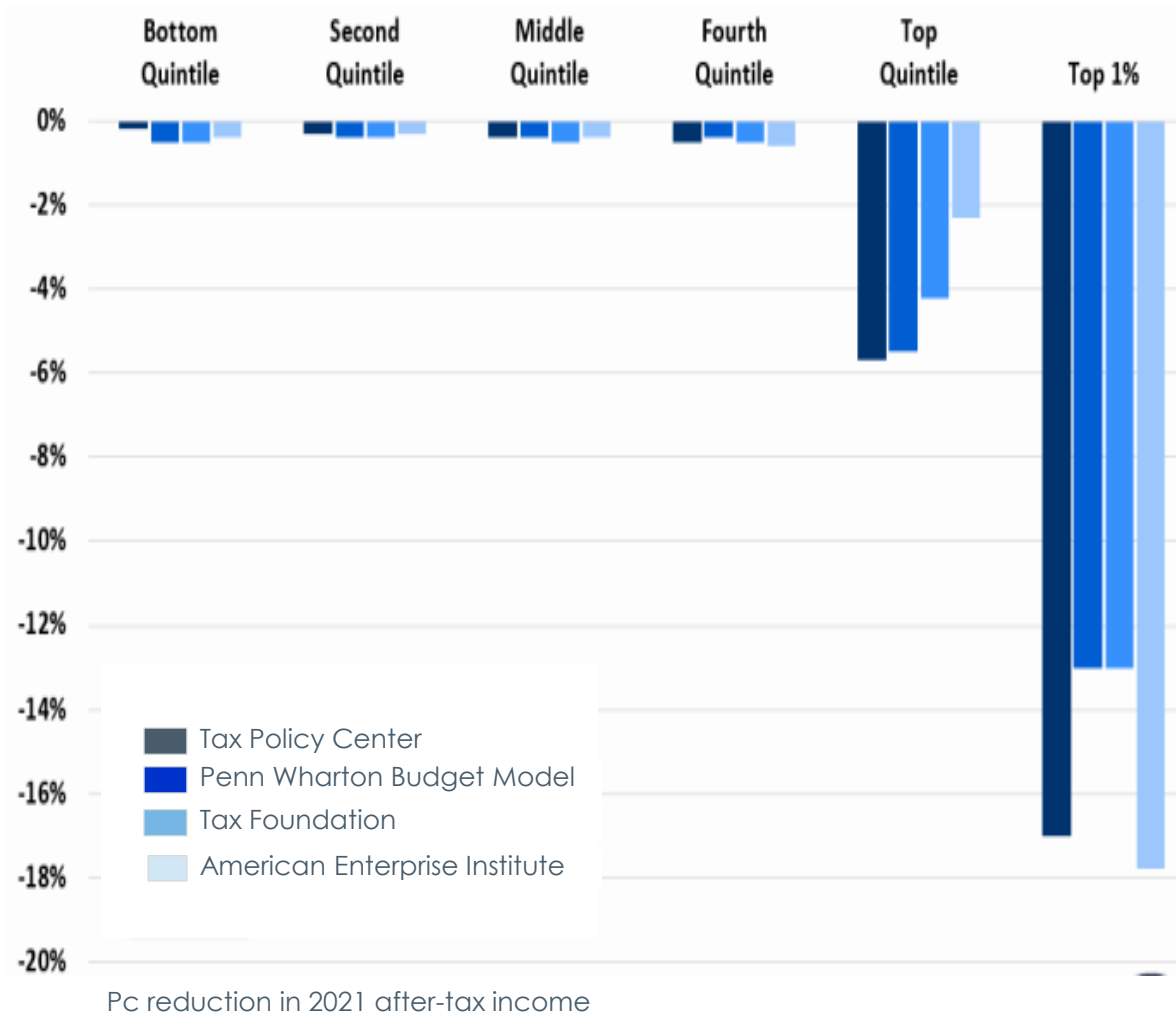
Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna.

A Biden Administration with a Senate majority would reverse the Trump corporate and personal tax cuts (but that's all), and raise minimum wages

- ❑ **A Biden Administration would obviously stand to the left of the Trump Administration – but would not be conspicuously more ‘liberal’ (left-wing) than the Obama Administration**
 - Biden has been at pains, during the formal part of the campaign, to emphasize the distance between himself and the ‘progressive’ wing of the Democratic Party (spear-headed by Elizabeth Warren, Bernie Sanders etc)
 - Biden is *not* going to appoint Warren as Treasury Secretary (if only so as to avoid creating a Senate vacancy in Massachusetts, which would then be filled by a Republican Governor)
- ❑ **A Biden Administration would reverse the Trump Administration’s 2017 corporate tax cuts and cuts in top income tax rates, and impose payroll (social security) tax on high incomes**
 - the corporate tax rate would revert to 28% from 21%, and impose an ‘alternative minimum tax’ of 15% on corporations with book profits of US\$100mn or higher
 - the top (federal) personal income tax rate (payable on incomes above US\$400K) would revert from 37% to 39.6%, and also apply that rate to capital gains and dividends which exceed US\$1 million, while limiting itemized deductions to 28% of value for taxpayers earning more than \$400K
 - a 12.4% Social Security (payroll) tax, evenly split between employers and employees would apply to incomes over US\$400K (currently this tax cuts out at US\$137,700)
 - the top rate of estate tax would revert to 45% (from 40%) and the exemption returned to US\$3.5mn from US\$11.58mn
 - the Obama Administration’s First Home Buyers’ Tax Credit would be restored, and the Child Tax Credit increased from US\$2,000 to \$3,000 for 2021 “and as long as economic conditions require”
- ❑ **A Biden Administration would seek to raise the federal minimum wage to US\$15 per hour by 2026**
 - The federal minimum wage has been set at US\$7.25 per hour since July 2009
 - 29 states currently have higher minimum wages than the federal minimum, including DC (\$14), CA and WA (\$13) and MA (\$12.75)
 - CA and MA are set to raise their minima to \$15 by January 2023, and IL by January 2025

Biden's tax proposals would increase tax paid by the top 20% of income earners but have very little impact on the bottom 80% of households

Alternative estimates of the distributional impact of Biden's tax proposals

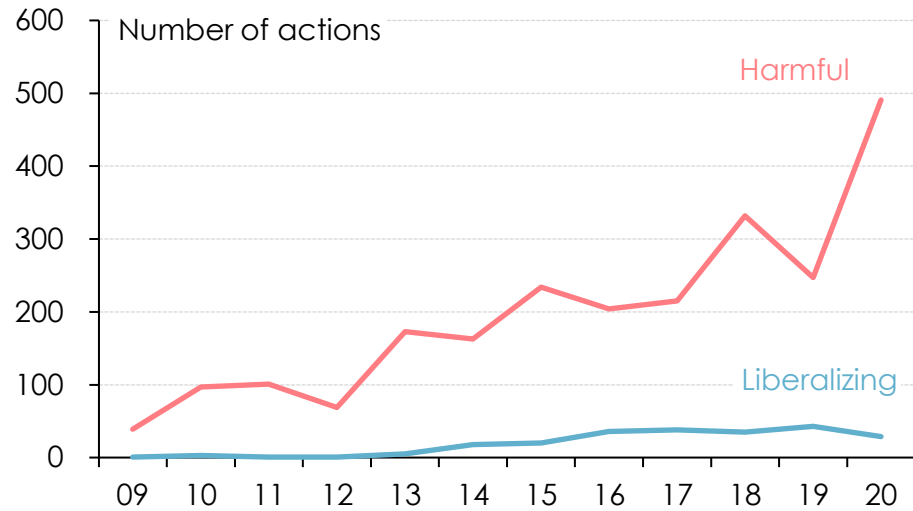


Source: [Committee for a Responsible Federal Budget](#).

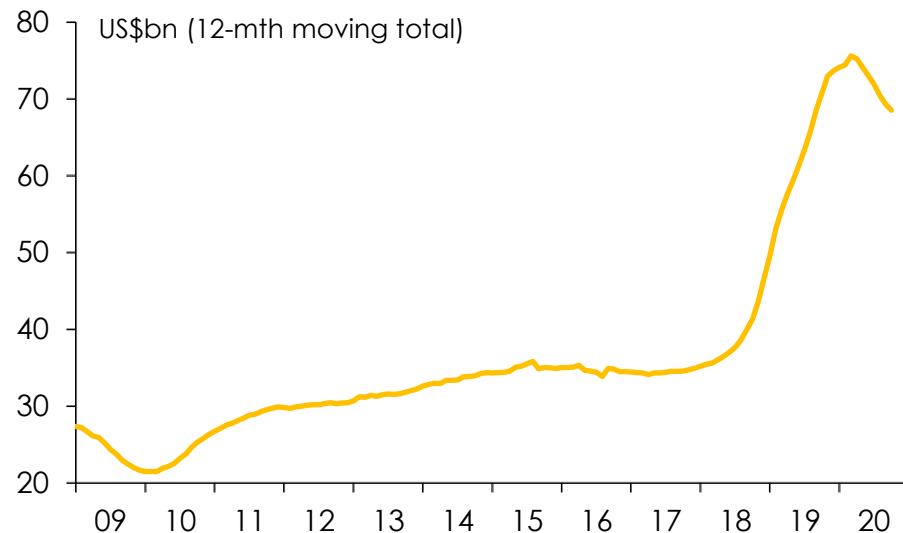
- According to the non-partisan Committee for a Responsible Federal Budget, Biden's tax proposals would raise US\$4.3 trillion in additional taxes over 10 years (equivalent to about 1.7% of GDP), partly offset by US\$800mn of increases in refundable tax credits
- US\$2.3 trillion of this amount comes from increased taxes on individuals (higher personal income and payroll tax rates, increased taxes on capital gains and dividends, and limits on deductions)
 - however *all* of these tax increases apply *only* to households with incomes in excess of US\$400,000 (A\$570,000), who account for about 1.5% of all American households
- The remaining US\$1.8 trillion of additional tax revenue comes from increases in taxes on corporations (in essence reversing the Trump Administration's 2017 corporate tax cuts, and doubling the tax rate on Global Intangible Low Tax Income (GILTI) of foreign subsidiaries of US firms to 21%)
- Allowing for the indirect impact of increased corporate taxes on individuals as shareholders or workers, taxes for the bottom 80% of households would rise by 0.2-0.6%, for the top 20% by 2.3-5.7%, and (within that) for the top 1% (earning over US\$837,000) by 13-17.8%

As President, Biden will also hopefully bring a different approach to trade policy, while still seeking to ‘disengage’ the US from China

US trade policy actions



US customs duty revenue



Sources: The Brookings Institution; Centre for Economic Policy Research, [Global Trade Alert Global Dynamics](#) (data up to 23rd October); [US Treasury Department](#).

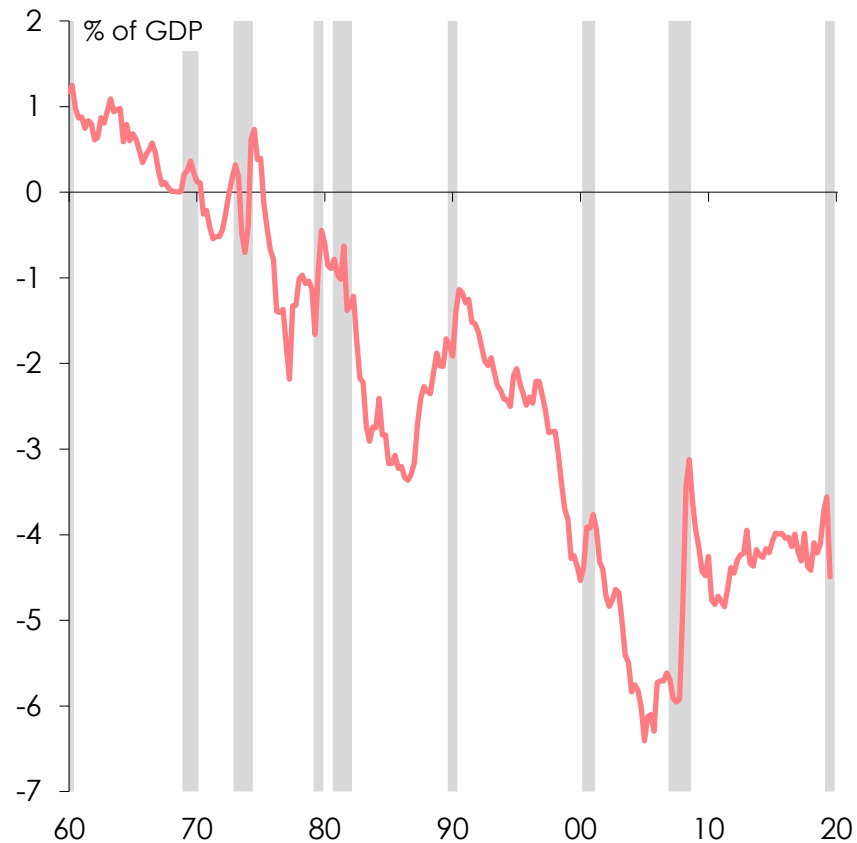
- ❑ The Washington DC-based Brookings Institution last month published a [useful and incisive analysis](#) of the impact of the Trump Administration’s trade policies
- ❑ It suggests, first, that the average American household has paid anywhere between “several hundred” and “a thousand dollars or more” per annum in higher prices attributable to tariffs
 - consistent with what is widely understood by economists, but (sadly) by few others, that tariffs are *not* something governments make foreigners pay to their goods into a country, but rather something they make *their own consumers* (or businesses) pay to keep foreign goods out of a country
- ❑ Second, it shows that while the Administration’s tariffs have created ‘several thousand’ jobs in the US steel industry, and about 1,800 jobs in manufacture of washing machines, these and other gains in import-competing industries have been more than offset by “losses in industries that use imported inputs and face retaliation on their foreign exports”
 - moreover, American consumers appear to have paid (in total) US\$817,000 in higher prices for every new job in the washing machine industry, and US\$900,000 for every new job in the steel industry
- ❑ Third, it concludes that the Administration’s trade policies have “made the US a less desirable trade partner for other countries”
- ❑ And fourth, it concludes that “while there might be a case for ensuring domestic production capacity” for items like steel or aluminium, the Administration’s tariffs have “antagonized many of America’s closest security partners” and made it “more difficult for the US to push back when other countries cloak protectionism in tenuous appeals to national security”

A Biden Administration would still seek to 'disengage' from China, but would be more supportive of the rules-based world trade system

- ❑ **A desire to reduce the depth and breadth of US economic engagement with China is one of the few areas of bi-partisan agreement in the US**
 - a Biden Administration would probably not lower or reverse current tariffs on Chinese exports to the US (even though Biden acknowledges that these are effectively paid by American consumers and businesses, not by Chinese exporters)
 - and a Biden Administration would continue to use 'national security' laws to restrict imports of certain products from China
 - the Democratic Party platform says that they will “protect the American worker from unfair trade practices by the Chinese Government including currency manipulation and benefiting from a misaligned exchange rate with the dollar”, although Biden hasn't specifically committed to any measures under that heading
- ❑ **Importantly from an Australian perspective, the Democratic Party Platform advocates the imposition of a “carbon adjustment fee at the border” (ie, a tariff) to “products from countries that fail to live up to their commitments under the Paris Climate Agreement”**
 - which would increase the likelihood of similar measures being implemented by the EU (and now Japan)
- ❑ **A Biden Administration may strengthen 'Buy American' rules on government procurement, especially with regard to steel and cement**
 - may adversely affect trade with, eg, Canada, Mexico, Japan and Korea but few implications for Australia
- ❑ **A Biden Administration may seek to re-engage with the Trade Partnership of the Pacific, in particular as a gesture towards restoring relations with allies in Asia damaged by Trump**
 - although the US may seek to renegotiate labour and environmental standards as a condition of full entry
- ❑ **A Biden Administration would likely be more supportive of the World Trade Organization**
 - and in particular end the Trump Administration's embargo on appointments to dispute resolution tribunals, which have severely hampered the WTO's capacity to resolve trade disputes

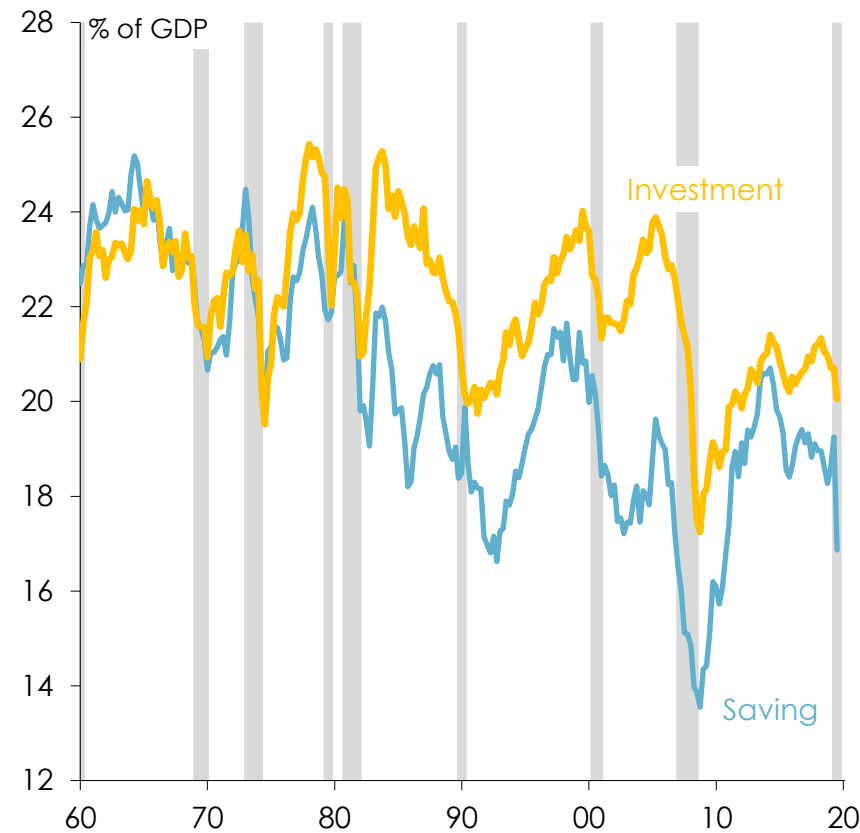
The chronic US current account deficit – which unusually has widened during this recession – could be a drag on the US dollar

US current account balance



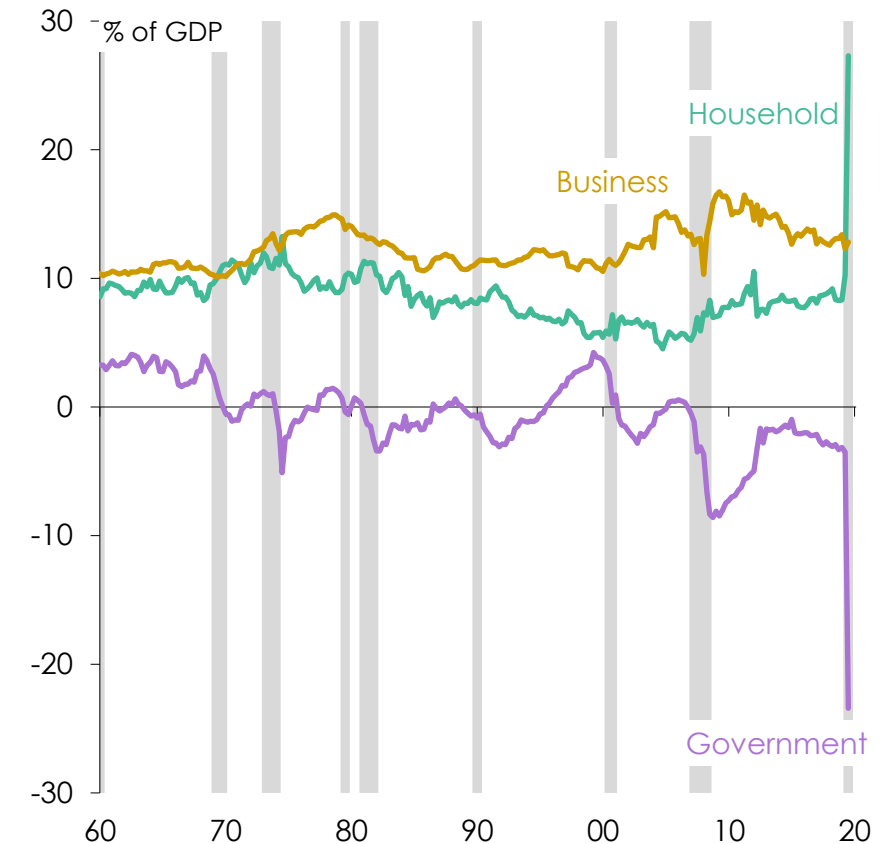
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

Gross saving and investment



Investment *hasn't* fallen much (so far) during this recession – perhaps because it didn't rise as much as usual during the preceding expansion (corporate tax cuts notwithstanding)

Gross saving by sector



The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving (though monthly data says household saving fell in Q3)

Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#).
Source: US [Bureau of Economic Analysis](#).

A Biden Administration would face some significant foreign policy challenges but would seek to work with allies, not with dictators

- ❑ **The Democratic Party's platform says that "as a Pacific power" the US "should work closely with its allies and partners to advance our shared prosperity, security and values"**
 - specifically it says "rather than denigrate our partners and encourage tensions between our allies, the United States
 - will work to strengthen ties with and between our key allies in the region, including Japan, South Korea, and Australia, and we will work to ensure that our alliances with Thailand and the Philippines live up to the values that our peoples share"
 - implicitly, the platform recognizes Indonesia's non-aligned status but it seems clear that under a Biden Administration relations between the world's 2nd and 3rd largest democracies would improve
- ❑ **A Biden Administration would re-engage with multi-lateral institutions – including the WTO, the WHO, and the UN**
 - and would "immediately rejoin" the Paris Climate Agreement
 - the Democrats' platform includes a specific commitment to "reinvigorate" America's commitment to "robust engagement with regional multilateral institutions like ASEAN" to help "promote the rule of law and sustainable, inclusive economic growth on both sides of the Pacific"
- ❑ **It's possible – perhaps even likely – that China will seek to 'test' a new Administration's resolve to defend Taiwan**
 - in much the same way as Nikita Khrushchev sought to test John F Kennedy's resolve by installing nuclear missiles in Cuba in 1962 – which brought the world perilously close to nuclear war
 - Xi Jinping is unlikely to launch a full-scale military invasion of Taiwan (although the PLA has been conducting 'exercises' with that objective seemingly in mind), but rather something less aggressive or dangerous, such as assaulting the Taiwanese-controlled islands of Quemoy and Matsu (as Mao Zedong did in 1958), having military aircraft overfly Taiwanese air-space, or having PLA Navy vessels venture close to (or into) Taiwanese territorial waters
 - the aim would be to see whether the apparent decline in the US' willingness to project military force to deter Chinese aggression (which began under Obama and accelerated significantly under Trump) and its preparedness to stand by its allies will continue under Biden

Important information

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